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NASHVILLE, TENNESSEE

July 31, 2005

EXECUTIVE SECRETARY

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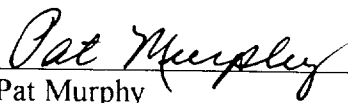
Docket No. 01-00592

1. The present docket was opened by the Authority to hear matters arising out of the audit of Nashville Gas Company (the “Company”).
2. The Company’s WNA filings were received on November 1, 2000, through March 31, 2001, and the Staff completed its audit of same on July 19, 2001.
3. On July 20, 2001, the Energy and Water Division issued its preliminary WNA single audit finding to the Company, and on July 26, 2001, the Company responded thereto.
4. The preliminary WNA audit report was modified to reflect the Company’s response and a final WNA audit report (the “Report”) resulted therefrom. The Report is

attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the same.

Respectfully Submitted:



Pat Murphy
Energy and Water Division of the
Tennessee Regulatory Authority

CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of July 2001, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Mr. Bill R. Morris
Director-Rates
Piedmont Natural Gas Company
P.O. Box 33068
Charlotte, North Carolina 28233


Pat Murphy

COMPLIANCE AUDIT REPORT
OF
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
DOCKET NO. 01-00592

PREPARED BY

TENNESSEE REGULATORY AUTHORITY

ENERGY AND WATER DIVISION

JULY 2001

EXHIBIT A

COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER
Docket No. 01-00592

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COMPLIANCE AUDIT
NASHVILLE GAS COMPANY
WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

I. INTRODUCTION

The subject of this compliance audit is the Weather Normalization Adjustment (WNA) Rider of Nashville Gas Company (hereafter "Nashville Gas" or the "Company"), a division of Piedmont Natural Gas Company. The objective of this audit is to determine if the WNA adjustments were calculated correctly and applied to customers' bills appropriately between November 1, 2000 and March 31, 2001. As a result of the WNA Rider, the Company refunded \$2,329,915 and \$1,660,675 to the residential and commercial customers respectively during the period. The impact of WNA revenues on the Company's total revenues is detailed in Section V.

The Staff's audit results showed no material findings for the audit period under review. We recommend that the \$2,966 over-collection (described in Section VI.) be included in the Company's next Actual Cost Adjustment filing with the Authority. We conclude that the Company is correctly implementing the mechanics of the WNA Rider as specified by the TRA and included in the Company's tariff. (See Attachment 1)

II. SCOPE OF AUDIT

In meeting the objective of the audit, the Staff compared the following on a daily basis: 1) the Company's actual heating degree days to National Oceanic and Atmospheric Administration (NOAA) actual heating degree days; 2) the Company's normal heating degree days to the normal heating degree days calculated in the last rate case; and 3) the Company's calculation of the WNA factor to Staff's calculation. The Staff also audited a sample of customers' bills during the WNA period to verify that the WNA factor had been correctly applied to the bills.

Pat Murphy and Butch Phillips of the Energy and Water Division conducted the audit.

III. BACKGROUND INFORMATION ON NASHVILLE GAS COMPANY

Nashville Gas Company, with its headquarters at 655 Mainstream Drive, Nashville, Tennessee, is a wholly owned subsidiary of Piedmont Natural Gas Company, which has its headquarters at 1915 Rexford Road, Charlotte, North Carolina. Nashville Gas is a gas distributor, which provides service to several communities in the Middle Tennessee area. The natural gas used to serve these areas is purchased from Tennessee Gas Pipeline, Columbia Gas Transmission Corporation and Texas Eastern Gas Pipeline in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission.

IV. BACKGROUND ON WEATHER NORMALIZATION ADJUSTMENT (WNA) RIDER

In its September 26, 1991 Order in Docket 91-01712, the Tennessee Regulatory Authority (hereafter "TRA" or the "Authority"), formerly the Tennessee Public Service Commission, approved a three year experimental Weather Normalization Adjustment (WNA) Rider to be applied to residential and commercial customers' bills during the months of October through May of each year (See Attachment 1). In its June 21, 1994 order, the TRA adopted the WNA Rider as a permanent rule, to be applied November through March of each year for Nashville Gas Company.

In setting rates, the Tennessee Regulatory Authority uses a normalized level of revenues and expenses for a test year, which is designed to be the most reasonable estimate of the Company's operations during the time the rates are to be in effect. Use of normalized operating levels eliminates unusual fluctuations that may occur during the test period, which causes rates to be set too high or too low.

Specifically, one part of normalizing revenues consists of either increasing or decreasing the test year weather related sales volumes to reflect the difference between the normal and actual heating degree days. (A heating degree day is calculated as the difference in the average daily temperature and 65 degrees Fahrenheit.) This average daily temperature constitutes normal weather and is determined based on the previous thirty years weather data.

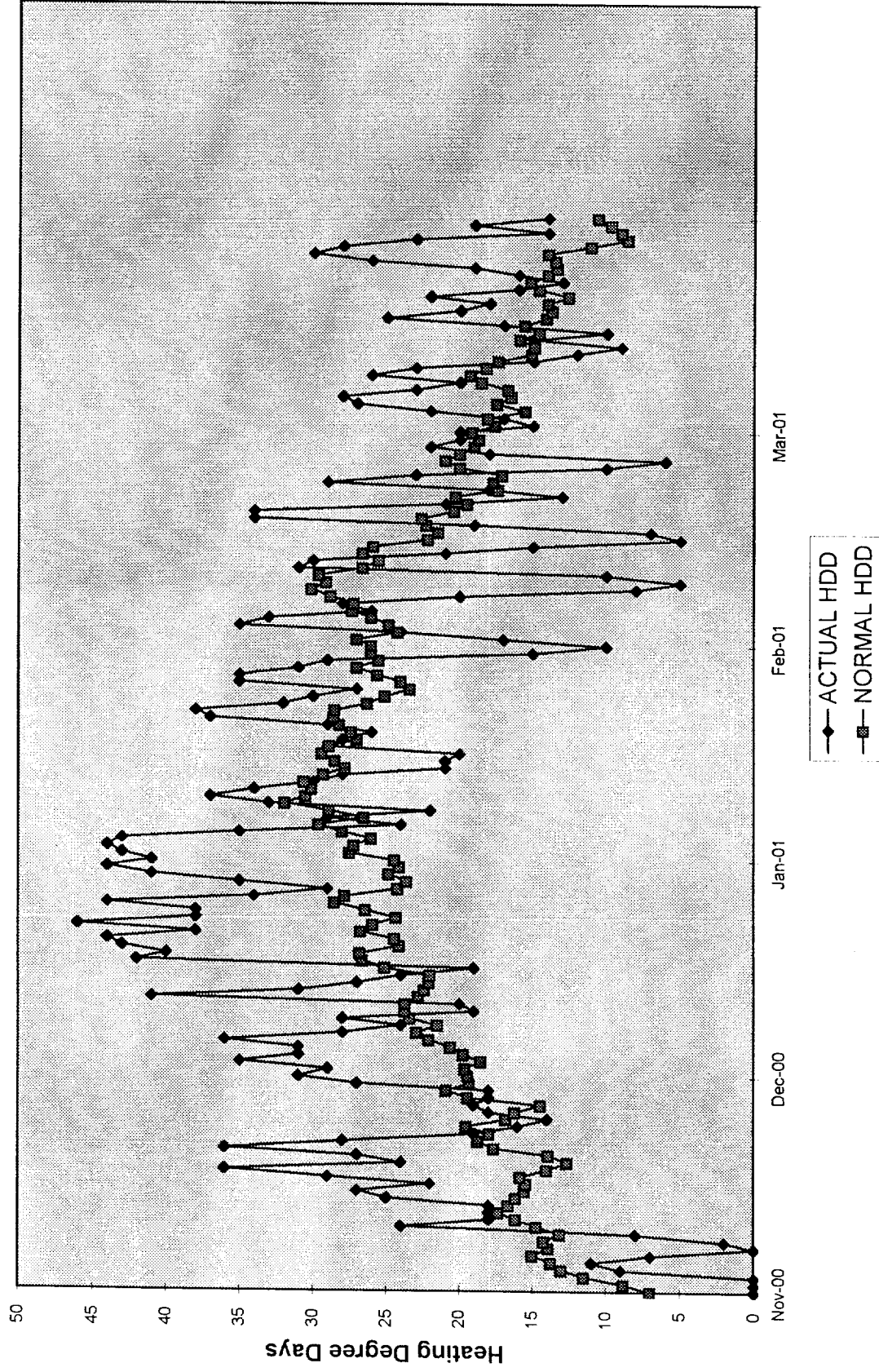
However, normal weather rarely occurs. This has two impacts:

- 1) The customers' bills fluctuate dramatically due to changes in weather from month to month; and
- 2) The gas companies earn more or less than their authorized rate of return. For example, if weather is colder than normal, then more gas than anticipated in the rate case will be sold. This results in higher customer bills and overearnings for the company. On the other hand, if weather is warmer than normal, less gas than anticipated in the rate case will be sold, the customers' bills will be lower and the company will underearn.

In recognition of this fact, the TRA approved a WNA mechanism to reduce the impact abnormal weather has on the customers' bills and on the gas utilities' operations. In periods of weather colder than normal, the customer receives a credit on his bill, while in periods of warmer than normal weather, the customer is billed a surcharge. Thus, customers' monthly bills should not fluctuate as dramatically and the gas company should have a more stable rate of return.

The following graph is a comparison of actual heating degree days to normal heating degree days for Nashville Gas during the 2000 - 2001 heating season.

Nashville Gas Company
Comparison of Actual to Normal Heating Degree Days
Nashville Weather Station



V. IMPACT OF WNA RIDER

The net impact of the WNA Rider during the November 1, 2000 through March 31, 2001 period was that residential and commercial customers were **credited** \$2,329,915 and \$1,660,675 respectively. This equates to decreases in revenues from residential and commercial sales of 2.58% and 2.66% respectively. (See Table 1) This is a decrease from the previous year when the residential and commercial customers were **surcharged** \$3,494,991 and \$2,148,486 respectively (See Table 2).

Table 1

Impact of WNA Rider on Residential & Commercial Revenues November 1, 2000 - March 31, 2001

	<u>WNA Rider Revenues</u>	<u>Total Revenues</u>	<u>Percentage Impact of WNA Rider On Revenue</u>
Residential Sales	\$ -2,329,915	\$ 90,348,619	-2.58%
Commercial Sales	<u>-1,660,675</u>	<u>62,391,843</u>	-2.66%
Total	\$ -3,990,589	\$ 152,740,463	-2.61%

Table 2

Amount Surcharged (Refunded) 1998 - 2001

	<u>Residential</u>	<u>Commercial</u>	<u>Total Surcharge/Refund</u>
11/98-3/99	\$ 2,858,841	\$ 1,702,798	\$ 4,561,639
11/99-3/00	3,494,991	2,148,486	5,643,476
11/00-3/01	<u>-2,329,915</u>	<u>-1,660,675</u>	<u>-3,990,589</u>
Total	\$4,023,917	\$2,190,609	\$6,214,526

VI. WNA FINDINGS AND CONCLUSIONS

The Staff's audit results showed an **over-recovery** from NGC's ratepayers in the amount of **\$2,966** for the period. This over-recovery resulted from a single finding, which is detailed below.

FINDING:

Exception

The Company used inaccurate actual daily heating degree days in the calculation of the WNA factor.

Discussion

The audit indicates that on one (1) days out of 182 days of weather observations in the WNA period, the Company used inaccurate actual daily heating degree days in the calculation of the WNA factor. This inaccuracy was due to the daily degree days published in NOAA's Local Climatological Data for Nashville being different from the daily degree days that the Company obtained for this particular day from a NOAA Internet site. Since the official NOAA publication, which is the standard in the TRA's audit of the Weather Normalization Adjustment, has a lag time of several months, the Company must rely on data that is immediately available. Through no fault of the Company, they relied on information from NOAA that later proved to be inaccurate.

The day involved was:

Date	Daily Degree Days Used By Company	Daily Degree Days As Published by NOAA	Degree Day Difference
09/30/00	0	1	+1

The net result of the Company's use of this inaccurate information is that the customers were **over-charged \$2,966**.

Company Response

The Company agrees with the finding.